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OFFICIAL STATEMENT

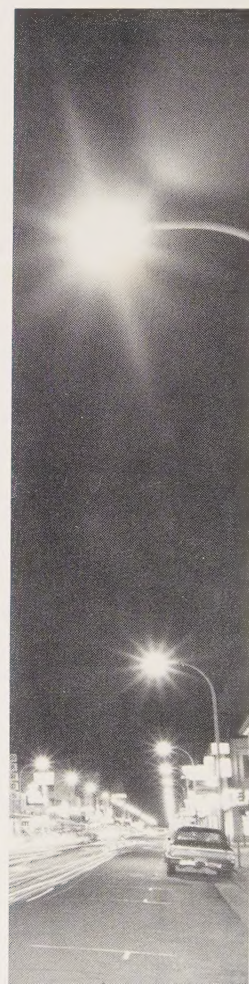
CITY OF MERCED
MERCED COUNTY, CALIFORNIA
\$900,000
1971 SEWER REVENUE BONDS

Bids to be received by the City Council of the City of Merced on Monday, April 26, 1971 at 2:00 P.M. at the Council Chambers, Merced City Hall, Merced, California.

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CITY OF MERCED

Merced County, California

City Council

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Dr. Edwin M. Dewhirst

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Tom Stofle

Les Yoshida, *Mayor Pro-Tem*

City Staff

Allan R. Schell, *City Manager and Clerk*

A. V. Henderson, *Finance Officer*

F. A. Silveira, *City Attorney*

Howard M. Carter, *Public Works Director*

John Palmer, *Acting Planning Director*

Robert C. Bundy, *Executive Assistant*

Special Services

Orrick, Herrington, Rowley & Sutcliffe,
San Francisco, California,
Bond Counsel

Hornblower & Weeks-Hemphill, Noyes,
San Francisco, California,
Financing Consultants

Bank of America N.T. & S.A.,
San Francisco, California,
Fiscal Agent

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The information contained within this official statement was prepared under the direction of the City Council of the City of Merced by Hornblower & Weeks-Hemphill, Noyes, who were employed by the City as financing consultants in connection with the proposed bond issue.

The information contained within this official statement has been compiled from sources believed to be reliable. This official statement contains estimates and matters of opinion which are not intended as representations of fact. This official statement is not to be construed as a contract with the purchasers of the bonds.

THE DATE OF THIS OFFICIAL STATEMENT IS
APRIL 5, 1971

INTRODUCTION

The \$900,000 City of Merced 1971 Sewer Revenue Bonds are to be issued pursuant to an ordinance of the city which incorporates all of the provisions of the Revenue Bond Law of 1941, except for the requirement of an election to authorize the bonds. Bond proceeds will be used in conjunction with a federal grant to finance construction of sewage treatment and disposal facilities.

The bonds are secured by sewer service charges which the city is obliged to maintain at a rate sufficient to meet all maintenance and operation and provide a minimum coverage of net revenues to revenue bond service of at least 1.35. Based on conservative projections of net sewer system revenue, a coverage ratio of more than 3.0 is anticipated.

The City of Merced is located in the San Joaquin Valley approximately 125 miles southeast of San Francisco. The city has a population of 22,686, and a 1970/71 assessed valuation of \$47,516,350. The ratio of net direct and overlapping general obligation bond debt to assessed valuation is only 6.52 percent and the ratio of direct debt to assessed valuation is only 1.18 percent.

SUMMARY OF ESSENTIAL FACTS

The Bonds

Principal Amount	\$900,000
Maturities	1972-1991
Average Life	12.72 years
Bond Years	11,455
Maturities Callable on or after 1981	1987-1991
Maximum coupon rate	7%
Maximum spread	2%

The Enterprise

Population served	24,000
Mandatory minimum coverage	1.35
Projected minimum coverage	3.13
Maximum debt service	\$87,600

Financial and Economic Data

1970 population	22,686
1970/71 Assessed Valuation	\$47,516,350
City tax rate per \$100	\$1.70
Total tax rate per \$100	\$11.76
Ratio direct debt to assessed valuation	1.18
Ratio direct and overlapping debt to assessed valuation	6.52
Per capita assessed valuation	\$2,095

THE BONDS

Authority for Issuance

The \$900,000 City of Merced 1971 Sewer Revenue Bonds are to be issued pursuant to Resolution No. 3733, adopted April 5, 1971. The bonds are being sold under provisions of the City Charter and Ordinance No. 1007, adopted by the City Council pursuant to the authority of Sections 200 and 201 of said Charter, which Ordinance authorizes the City Council to issue revenue bonds pursuant to the provisions of the Revenue Bond Law of 1941 except for the requirements of an election.

Terms of Sale

Bids for the purchase of the bonds will be received by the City Clerk of the City of Merced on Monday, April 26, 1971, at 2:00 p.m. The bonds will be awarded by the City Council pursuant to the terms of sale set forth in the official notice of sale.

Description of Bonds

The bonds consist of \$900,000 aggregate principal amount numbered 1 to 180, inclusive, each in the denomination of \$5,000, dated May 1, 1971. Interest is payable semi-annually on November 1 and May 1. Both principal and interest are payable in San Francisco at the principal office of the Bank of America N.T. & S.A., the city's fiscal agent.

Schedule of Maturities

The bonds are to mature and become payable on May 1 of the years specified in the adjacent table.

Redemption Provisions

The bonds maturing on or before May 1, 1986, a total principal amount of \$550,000, are not callable prior to their maturity dates. Bonds maturing on or after May 1, 1987, a total principal amount of \$350,000 are callable, as a whole or in part, from funds derived by the city from any source on any interest

payment date on or after May 1, 1981, at the option of the city, at the principal amount and accrued interest to the date of redemption plus a premium of (a) $\frac{3}{4}$ of one percent plus (b) an additional $\frac{1}{4}$ of one percent for each year or fraction of a year from the redemption date to the maturity date of the bonds.

Notice of redemption is to be published once a week for two successive weeks in a newspaper of general circulation in San Francisco, California, or in New York, New York, at least 30 days but not more than 60 days prior to the redemption date. Notice of redemption is to be mailed to the original purchasers of the bonds and to the holders of any registered bonds designated for redemption.

Fiscal Agent

The Bank of America N.T. & S.A. has been appointed by the city as fiscal agent in connection with the 1971 Sewer Revenue Bonds. The fiscal agent is authorized to maintain the Reserve Account and to pay interest on and principal of all bonds when due. The Resolution requires that certain notices and reports be given the fiscal agent to demonstrate the city's compliance with the Resolution and for such purposes as the issuance of additional bonds.

Legal Opinion

The unqualified legal opinion of Orrick, Herrington, Rowley and Sutcliffe attesting to the validity of the bonds will be supplied free of charge to the original purchasers of the bonds. A copy of the legal opinion, certified by the City Clerk of the City of Merced, will be printed on each bond without charge to the successful bidder.

SCHEDULE OF MATURITIES

<i>Maturity Date (May 1)</i>	<i>Principal Amount</i>
1972	\$20,000
1973	25,000
1974	25,000
1975	25,000
1976	30,000
1977	30,000
1978	30,000
1979	35,000
1980	40,000
1981	40,000
1982	45,000
1983	45,000
1984	50,000
1985	55,000
1986	55,000
1987	60,000
1988	65,000
1989	70,000
1990	75,000
1991	80,000

Tax-Exempt Status

In the opinion of bond counsel, under existing statutes, regulations, and court decisions, the interest on the bonds is exempt from all present Federal income taxes and from State of California personal income taxes; and the bonds are exempt from all California taxes except inheritance, gift, and franchise taxes.

Legality for Investment

Application has been made for a certificate of eligibility from the Superintendent of Banks of the State of California. If such certificate is issued, the bonds would constitute legal investments in California savings banks and for all trust funds and for the funds of insurance companies, commercial banks, trust companies, and any public or private fund which may be invested in county, municipal, or school district bonds, and may be deposited as security for the performance of any act whenever the bonds of any county or municipality may be so deposited, and may also be used as security for the deposit of public moneys in banks of the state.

Registration

Coupon bonds will be issued by the city. The bonds are registrable as to both principal and interest, at the holder's option, with privilege of deregistration and conversion into coupon bonds at the owner's expense.

Security

The bonds are equally secured by an exclusive pledge and charge upon revenues. As defined in the Resolution, "revenues" include gross receipts from the operation of the Enterprise which is comprised of the city's sewer system and all future additions, improvements, betterments, and extensions of these facilities.

"Revenues" do not include sewer facilities charges, sewer extension charges, sewer connection charges, and refundable deposits to establish credit. The city must maintain revenues at a level sufficient to provide a minimum coverage of net revenues to bond service of at least 1.35.

The bonds are revenue bonds and do not constitute a debt of the City of Merced. The bonds are not secured by the taxing power of the City of Merced, nor may any recourse be had for their payment by a pledge, charge, lien or encumbrance upon any of the property of the city or any of its income except the revenues.

Disposition of Bond Proceeds

The Resolution provides that the fiscal agent will receive the proceeds from the sale of the 1971 Sewer Revenue Bonds and apply them as follows:

Interest Account: The accrued interest paid by the purchaser of the bonds will be deposited into the Interest Account.

Reserve Account: A sum equal to the maximum annual debt service will be deposited into the Reserve Account.

Construction Fund: The remainder of bond proceeds will be transferred to the Finance Officer for deposit in the Construction Fund and used for the completion of the project. Any balance remaining in the Construction Fund after the project is completed will be transferred to the fiscal agent for deposit into the Reserve Account if needed to comply with provisions of the Resolution. Any remaining balance thereafter is to be deposited into the Revenue Fund and applied for any authorized purpose.

Creation of Special Funds

The Resolution provides for the establishment of special funds and accounts to be held and administered by either the fiscal agent or the Finance Officer. These funds and accounts will be employed in connection with the operation of the Enterprise as shown in the following table.

Application of Revenues

The gross revenues of the Enterprise are to be deposited by the Finance Officer into the Sewer Revenue Fund which was established under City Ordinance 1007 passed on February 16, 1971.

Interest Account: On or before the first day of October and the first day of April, beginning October 1, 1971, an amount equal to the next interest payment payable on all outstanding bonds is to be transferred to the fiscal agent for deposit into the Interest Account. No deposit need be made if the amount contained in the Interest Account is at least equal to the interest payable on the next succeeding interest payment date. Moneys in the Interest Account may be invested in securities maturing not later than the date moneys are needed.

Principal Account: On or before the first day of April beginning April 1, 1972, an amount is to be transferred to the fiscal agent for deposit in the Principal Account which is equal to at least the aggregate amount of principal becoming due and payable on the outstanding bonds on the next succeeding May 1.

Moneys in the Principal Account may be invested in securities maturing not later than the date needed.

Maintenance and Operation Account: The Finance Officer, on or before the first day of each month, shall deposit into the Maintenance and Operation Account the budgeted amount of money needed to maintain and operate the Enterprise during the month.

Reserve Account: An amount equal to the maximum annual debt service will be deposited into this account from bond proceeds. Moneys in this account must be maintained in an amount equal to maximum annual debt service. All moneys in the Reserve Account are to be used by the fiscal agent solely for replenishing any deficiency in the Interest Account or Principal Account or the payment of principal and interest on the bonds in

<i>Fund or Account</i>	<i>Source</i>	<i>Use</i>
Construction Fund [Resolution Section 3.02] (maintained by the city after initial transfers to the Interest and Reserve Accounts are made by fiscal agent)	Bond proceeds	Construction, balance to Reserve Account and Revenue Fund as indicated in the Resolution
Sewer Revenue Fund [Resolution Section 4.01] (maintained by city)	All sewer system revenues	Transfers to the Interest, Principal, Maintenance and Operation, Reserve, and Surplus Revenue Accounts, in order of priority
Interest Account [Resolution Section 4.03(1)] (maintained by fiscal agent)	Bond proceeds and Revenue Fund	Bond interest
Principal Account [Resolution Section 4.03(2)] (maintained by fiscal agent)	Revenue Fund	Bond principal
Maintenance and Operation Account [Resolution Section 4.03(3)] (maintained by city)	Revenue Fund	Maintenance and operation of Enterprise
Reserve Account [Resolution Section 4.03(4)] (maintained by fiscal agent)	Bond proceeds and Revenue Fund	Bond principal and interest
Surplus Revenue Account [Resolution 4.03(5)] (maintained by city)	Revenue Fund	Any authorized purpose after all other accounts have been paid in full in accordance with Resolution

the event no others moneys are available.

Moneys in the Reserve Account are to be invested by the fiscal agent at the direction of the city.

Surplus Revenue Account: All moneys remaining in the Sewer Revenue Fund on each April 1 after depositing all of the sums required to be set aside in the Interest Account, Principal Account, Maintenance and Operation Account, and Reserve Account shall be deposited in the Surplus Revenue Account which may be used for any lawful purpose of the city, including maintenance and operation costs of the Enterprise; extensions, improvements, or betterments to the Enterprise; or the purchase or redemption of 1971 Sewer Revenue Bonds or additional bonds.

Additional Bonds

Section 3.03 of the Resolution provides that additional bonds may be issued on a parity with the 1971 Sewer Revenue Bonds provided the following requirements are met:

1. The city shall be in compliance with all covenants of the Resolution and a certificate of the city to that effect shall have been filed with the fiscal agent.
2. The issuance of additional bonds shall have been duly authorized and the issuance of the additional bonds shall have been provided by a supplemental resolution adopted by the city council.
3. Proceeds of additional bonds are to be applied solely for the purpose of making improvements or additions to the Enterprise or for refunding bonds of earlier issues.
4. Additional bonds must mature only on May 1 of any year and interest shall be payable semi-annually, or annually for the first year and

semi-annually thereafter. Provision must be made through serial maturities or minimum sinking fund payments for retirement of additional bonds on or before their respective maturity dates.

5. An additional amount is to be deposited in the Reserve Account so that its balance will be equal to the maximum annual debt service on all outstanding 1971 Sewer Revenue Bonds and additional bonds.
6. Actual annual net revenues for the last fiscal year or for the last twelve-month period preceding adoption of a supplemental resolution must have been equal to at least 1.35 times maximum annual debt service on all outstanding 1971 Sewer Revenue Bonds and additional bonds.

The Resolution permits credit for estimated future earnings from extensions and improvements to the Enterprise and from increased rates and charges provided they are certified by a qualified independent engineer. In the case of additional bonds to be issued to finance improvements and additions to the Enterprise, 75 percent of the estimated average annual net revenue to be derived from the improvements and additions during the first three years after completion of the improvements may be added to actual net revenues for the preceding fiscal year or twelve-month period and treated as if actually received by the city. In the case of earnings arising from an increase in rates or charges which have not been in effect for a full fiscal year or twelve-month period, an allowance will be made equal to 75 percent of the amount by which net revenues would have been increased if such increases had been in effect for the entire fiscal year or twelve-month period.

To the extent that additional bonds are issued to refund outstanding bonds, the debt service on the bonds to be refunded is to be excluded from the computation described above.

Maintenance of Rates and Charges

The city covenants that so long as any of the bonds are outstanding it will fix, prescribe, and collect rates, fees, and charges for services and facilities of the Enterprise so as to yield revenues sufficient to pay the following amounts:

1. Interest and principal of the bonds as they become due and payable.
2. All payments required to comply with the terms of the Resolution and any supplemental resolution providing for the issuance of additional bonds.
3. All payments to meet any other obligations of the city which are charges, liens, encumbrances upon, or payable from the revenues, and
4. All current costs of maintenance and operation of the Enterprise.

In addition, the city covenants that while any of the bonds remain outstanding, rates, charges, and fees for services and facilities furnished by the Enterprise will be fixed, prescribed, and collected so as to yield net revenues during the then immediately ensuing twelve-month period equal to at least 1.35 times annual debt service. Net revenues are defined as the gross revenues of the Enterprise remaining after payment of maintenance and operation costs.

Additional Covenants

Additional covenants contained in the Resolution include the following:

1. The city will punctually pay or cause to be paid the principal and interest to become due in respect to all the bonds, in strict conformity with the terms of the Resolution.
2. The city will not sell, lease, or otherwise dispose of any part of the Enterprise unless provision is made for the continuance of payments into the Revenue Fund sufficient to permit payment of bond principal and interest, any applicable premium, and provide for payments into the various funds required by the Resolution.

If all or any substantial part of the Enterprise is condemned or sold under threat of condemnation, the proceeds of such award or sale must be applied to the construction and/or acquisition of new facilities or used to retire or redeem outstanding bonds.

3. The city will maintain the Enterprise in good repair and working order at all times from the revenues available for such purposes and will operate the Enterprise in an efficient and economical manner.
4. The city will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien upon the revenues or otherwise impair the security of the bonds.
5. The city will maintain or cause to be maintained insurance on the Enterprise against such risks as are usually insurable in connection with similar enterprises. If any part of the Enterprise is damaged or destroyed, insurance proceeds are to be used to restore it to use, and to the extent not so applied must be deposited in the Revenue Fund.
6. The city will secure and maintain fidelity insurance or bonds on all officers and employees responsible for any revenues or funds of the Enterprise.
7. The city will preserve and protect the security of the bonds and the rights of the bondholders, and will warrant and defend their rights against all claims and demands of all persons.
8. The city will keep proper books of records and accounts of all transactions relating to the Enterprise. Such books will at all times be subject to inspection by the fiscal agent or holders of not less than ten percent of the principal amount of the bonds then outstanding.

The city will prepare and file with the fiscal agent annually:

- a. A detailed statement for the preceding fiscal year showing the revenues, all disbursements from the revenues and all expenditures applicable to the Enterprise.
- b. A detailed balance sheet reflecting the financial condition of the Enterprise, including the balances in all funds held by the Finance Officer and the fiscal agent.
- c. The statement and balance sheet, to be accompanied by a certificate or opinion in writing of an independent certified public accountant, shall include a statement as to the manner and extent to which the city has complied with the provisions of the Resolution.
- d. A general statement showing the schedule of service charges as of the close of the fiscal year, and the gross revenues received during such fiscal year.
- e. A statement as to all insurance carried by the city as of the end of such fiscal year.
- f. The city will prepare annually a reasonably detailed summary statement showing the amount of the revenues and the disbursements from the revenues for the preceding fiscal year, and a general statement of the financial and physical condition of the Enterprise.

The city will furnish a copy of the summary statement to any bondholder upon request, and will furnish to the fiscal agent copies for distribution to holders of bonds requesting copies.

Estimated Annual Bond Service

Table 1 presents an estimate of total annual bond service on the 1971 Sewer Revenue Bonds at the maximum interest rate of seven percent.

TABLE 1
ESTIMATED BOND SERVICE
\$900,000 CITY OF MERCED 1971 SEWER REVENUE BONDS

<i>Year</i>	<i>Principal Outstanding Beginning of Year</i>	<i>Principal Maturing May 1</i>	<i>Interest Estimated at 7 1/2%</i>	<i>Total Bond Service</i>
1972	\$900,000	\$ 20,000	\$ 63,000	\$ 83,000
1973	880,000	25,000	61,600	86,600
1974	855,000	25,000	59,850	84,850
1975	830,000	25,000	58,100	83,100
1976	805,000	30,000	56,350	86,350
1977	775,000	30,000	54,250	84,250
1978	745,000	30,000	52,150	82,150
1979	715,000	35,000	50,050	85,050
1980	680,000	40,000	47,600	87,600
1981	640,000	40,000	44,800	84,800
1982	600,000	45,000	42,000	87,000
1983	555,000	45,000	38,850	83,850
1984	510,000	50,000	35,700	85,700
1985	460,000	55,000	32,200	87,200
1986	405,000	55,000	28,350	83,350
1987	350,000	60,000	24,500*	84,500
1988	290,000	65,000	20,300*	85,300
1989	225,000	70,000	15,750*	85,750
1990	155,000	75,000	10,850*	85,850
1991	80,000	80,000	5,600*	85,600
		\$900,000	\$801,850	\$1,701,850

* Callable on or after May 1, 1981.

THE ENTERPRISE

The City of Merced maintains a complete sewage collection system which serves the city plus some outside areas. The need for increased treatment capacity and collection facilities resulted in the development of a master sewer plan to expand and upgrade the existing facilities.

Prior to adoption of Sewerage Ordinance No. 951 on December 8, 1969, the City of Merced provided sewer service free of charge to its citizens. However, because of the demand for a higher level of treatment for an increasing population, the City Council enacted the sewerage ordinance to fairly spread the cost of sewer service over the users of the facilities.

Pursuant to the ordinance, residential rates are charged according to the assessed value of the improvements on the real property, as shown below:

<i>Assessed Valuation</i>	<i>Monthly Sewer Service Charge</i>
\$1,000 or less	\$2.00
1,001 to \$2,000	2.50
2,001 to 3,000	3.00
3,001 to 4,000	3.50
4,001 to 5,000	4.00
5,001 and over	4.50

Mobile homes and trailer coaches pay a flat rate of \$2.50 per month, and commercial users and governmental agencies have the choice of having their rates based on volume of water consumed or volume of sewage discharged into the city sewer system.

Schools are charged on a per student basis, and churches are charged at the same rates as residential properties. Industrial rates are the same as commercial unless the B.O.D. of the industrial waste is over 300 parts per million. In this event, additional charges are levied.

The sewer service charge for all users outside the city is four times the amount the user would pay if he were in the city limits.

Charges for sewer service begin on the first day of the month following completion or occupancy of a building, and billing is bi-monthly thereafter. When charges for any billing period are not paid by the twentieth day of the second month following the beginning of each billing period, a 25 percent penalty is added. The charges imposed pursuant to the ordinance constitute a debt to the city from and against any person on the system. Anyone who has not paid his sewer charge or penalty is liable in a civil action for the amount of the charge imposed by the ordinance, including penalties, plus the cost of any suit, and attorney's fees in the sum of \$50. Pursuant to the ordinance, the Finance Officer and all other appropriate officers and employees are required to promptly take all steps necessary for the collection of sewer service charges.

Sewer Facilities Charges

Each property owner who connects to the city sewer system is required to pay a sewer facilities charge. A residential dwelling is charged \$200.00 for connection to the system. A charge of \$900.00 per acre is charged for connection of a commercial, industrial, professional, or other non-residential use.

Pursuant to the ordinance sewer facilities charges may only be used for capital additions to the sewer system or to pay bond service. Although revenue from this source is not pledged to the 1971 Revenue Bonds, it may be used for debt service if the city so desires.

Sewer System Revenues and Expenses

As indicated earlier, the city did not charge for sewer service prior to 1970. Table 2 shows actual operating costs from 1965/1966 to 1969/1970, and an estimate for 1970/1971. The projected maintenance and operation cost increase in 1970/71 is attributable to the fact that additional personnel and power costs became necessary during construction of new improvements, and these costs will continue in the future.

The city contracts with Merced County for computerized billing of sewer service charges. The first bills were sent out to cover the period March 1 to April 30, 1970. Table 3 shows actual bi-monthly collections from the inception of the charge. Initial collections were lower because the billing process required additional refinement.

Table 4 shows projected revenues and expenses of the sewer system to 1974/75. The revenue projections are based on actual collection experience of the city since the sewer service charge ordinance became effective. The 1970/71 level of revenues is adequate to provide a minimum coverage of over 3.0 times maximum annual bond service. Revenue projections are based on a conservative growth rate of three percent per year, and expense estimates were developed by the city's department of public works after careful analysis of past costs and future needs.

TABLE 2
SEWER SYSTEM
MAINTENANCE AND
OPERATION COSTS

<i>Year</i>	<i>Amount</i>
1965/66	\$36,930
1966/67	41,048
1967/68	50,222
1968/69	57,893
1969/70	57,674
1970/71	77,810*

* Estimate.

TABLE 3
SEWER SERVICE CHARGE COLLECTIONS

<i>Billing Period</i>	<i>Amount</i>
March 1 to April 30, 1970	\$38,175
May 1 to June 30, 1970	50,175
July 1 to August 31, 1970	52,249
September 1 to October 31, 1970	55,318
November 1 to December 31, 1970	60,714
January 1 to February 28, 1971	61,818

TABLE 4
PROJECTED SEWER SYSTEM REVENUES, EXPENSES AND REVENUE BOND COVERAGE

	<i>1970/71*</i>	<i>1971/72*</i>	<i>1972/73*</i>	<i>1973/74*</i>	<i>1974/75*</i>
REVENUE					
Sewer service charges	\$340,000	\$350,200	\$360,700	\$371,500	\$382,600
EXPENSES					
Salaries and wages	\$ 41,655	\$ 45,720	\$ 47,800	\$ 50,190	\$ 55,335
Materials and supplies	4,510	5,660	5,942	6,239	6,908
Power	14,700	18,410	19,330	20,297	22,472
Chemicals	11,800	14,770	15,508	16,284	18,030
Miscellaneous	1,145	1,200	1,260	1,325	1,460
Total	\$ 73,810	\$ 85,760	\$ 89,840	\$ 94,335	\$104,205
Net Revenue	\$266,190	\$264,440	\$270,860	\$277,165	\$278,395
Estimated Bond Service at 7%	—	\$ 83,000	\$ 86,600	\$ 84,850	\$ 83,100
Revenue Bond Coverage	—	3.19	3.13	3.27	3.35
Available For Capital Outlay	\$266,190	\$181,440	\$184,260	\$192,315	\$195,295

* Year ending May 1.

THE PROJECT

The City of Merced sewerage system serves an estimated population of 24,000, both within and without the city. The present system can accommodate an average daily flow of 7.5 M.G.D. and peak flows of up to 10 M.G.D. Upon completion of the sewerage system project, to be financed by the proceeds of the bonds currently being offered in combination with a Federal grant under Public Law 660, the treatment plant will be able to accommodate an average daily flow of 17.1 M.G.D. and peak flows of 24.7 M.G.D. The present oxidation pond system is in the process of being doubled in area, which will also double the volume which the pond system can accommodate.

Chlorination of the pond effluent prior to final discharge will be accomplished by using two new chlorine machines, each capable of applying 2,000 pounds of chlorination daily. The machines can be controlled manually or may proportion the feed through a signal from a meter which measures the pond discharge. Sludge is presently digested in the digestion compartment of an Imhoff Tank. Upon completion of the project, the Imhoff Tank will be converted to a digester.

Estimated Project Cost and Bond Issue Requirement

The estimated total cost of the project, including legal and financing costs, is \$1,174,478. These costs will be met from proceeds of the revenue bonds and a grant to the city under Public Law 660 of \$362,228. Additional sewer system improvements are being made by the city on a pay-as-you-go basis from funds derived from both the sewer facilities charge and sewer charge revenues not needed for maintenance and operation or bond service. The city hopes to finance as many improvements as possible on a pay-as-you-go basis. However, additional revenue bonds may be issued in the future, dependent upon the growth rate of the city.

TABLE 5
PROJECT COST AND BOND ISSUE REQUIREMENTS

Construction cost	\$1,005,259
Contingency reserve	35,616
Engineering and inspection	96,206
Issuing expenses	37,397
Total Construction and Related Costs	\$1,174,478
Less: P.L. 660 Grant	(362,228)
City share of total	\$ 812,250
Bond reserve	87,750
Bond Issue Requirement	\$ 900,000

CITY ORGANIZATION AND FINANCIAL DATA

The City of Merced was incorporated April 1, 1889. On April 12, 1949, the electorate approved establishment of a charter form of government, which became effective July 26, 1949.

The Merced City Charter provides for election of a city council composed of seven members elected at large for overlapping four-year terms. The mayor is selected by the city council from among its membership. The day-to-day municipal activities of the city are administered in accordance with policies of the city council by an appointed professional city manager who serves at the council's pleasure.

The city employs approximately 200 persons and provides a high level of municipal services to its 22,686 citizens. The major services provided by the city include police and fire protection, waste collection and disposal, sewer service, park and recreation, planning, building inspection, and street maintenance and lighting. Table 6 shows the city's operating revenues and expenses for the fiscal years 1966/67 through 1969/70.

City Assessed Valuations

The city assessed valuation is established by the Merced County assessor's office, except that the assessed valuation of utility property is established by the State Board of Equalization. The 1970/71 Merced County assessed valuation averaged 22.3 percent of full value. The valuation of utility property was established at 31 percent of full value, except for property used for non-utility purposes

and possessory interests which are assessed at 25 percent of full value. Under recent amendments to the Constitution and Statutes of the State of California, two types of exemptions of property from ad valorem taxes became effective for the first time in the 1969/70 fiscal year. One of these exempts 30 percent of business inventories from ad valorem taxes, and the other provides for an exemption of \$750 of the assessed valuation of an owner-occupied dwelling if the owner files for the exemption. The revenue estimated to be lost to each taxing entity as a result of these exemptions is reimbursed to the taxing entity from state funds. The reimbursement is based upon the total taxes which would be due on the assessed valuation of the property qualifying for these exemptions. Table 7 summarizes the city's 1970/71 assessed valuation.

Tax Rates, Collections, and Delinquencies

Pursuant to the charter, the city's general tax rate was set at \$1.00 per \$100.00 assessed valuation for general purposes. Prior to 1966/67, the city did its own assessing and assessed at a rate twice that assessed by the county. Beginning in 1966/67, the county assumed the responsibility of assessing

city property. In order to offset the revenue loss which would accrue as a result of this change, the tax rate limit of the city was doubled. The present city tax rate is \$1.70 per \$100 of assessed valuation, and the total 1970/71 tax rate for all purposes is \$11.76, as shown in table below.

TOTAL 1970/71 TAX RATE APPLICABLE TO CITY

Merced County	\$ 3.56
City of Merced	1.70
Elementary schools	3.11
High school	2.28
Merced College	.76
Other	.35
Total	\$11.76

Merced County collects the city's taxes in two installments, which are due November 1 and March 1. Unpaid installments become delinquent on December 10 and April 10, respectively. Table 8 shows the city's tax collection and delinquency experience over the past five fiscal years.

Direct and Overlapping Debt

The city is in an excellent financial position. The net direct and overlapping general obligation bond debt is only 6.52 percent of assessed valuation and direct debt is only 1.18 percent of assessed valuation. The city's share of authorized and unsold bonds of the Merced City School District is \$922,857, and its share of the authorized and unsold bonds of the Weaver Unified School District is \$17,000. Table 9 shows the statement of the city's estimated direct and overlapping general obligation bond debt as of April 26, 1971.

TABLE 6
SUMMARY OF OPERATING REVENUES AND EXPENSES

	1966/67	1967/68	1968/69	1969/70
OPERATING REVENUES				
Property tax	\$ 671,926	\$ 714,539	\$ 725,609	\$ 742,185
Sales and use tax	296,777	321,840	335,912	497,483
Business licenses and franchises	106,686	111,354	115,675	119,106
Gas tax and other state allocations	230,938	293,744	333,449	335,971
Fines, forfeitures and penalties	81,386	91,752	96,891	129,988
Municipal Airport	122,130	115,985	120,839	122,278
Disposal service	167,298	180,183	210,897	222,787
Fees and permits	40,253	56,540	55,142	183,119
Other	155,080	209,255	215,727	214,536
Total	\$1,872,474	\$2,095,192	\$2,210,141	\$2,567,453
OPERATING EXPENSES				
Protection to persons and property	\$ 675,677	\$ 751,461	\$ 897,214	\$1,027,147
Public works	468,557	506,547	531,486	644,438
Administration	139,886	137,636	151,748	183,727
Recreation and parks	153,139	170,794	192,975	247,806
Municipal Airport	107,109	103,841	112,721	122,993
Other	225,190	245,482	268,284	341,790
Total	\$1,769,558	\$1,915,761	\$2,154,428	\$2,567,901

TABLE 7
1970/71 CITY ASSESSED VALUATION

<i>Assessment Roll</i>	<i>Assessed Valuation for Revenue Purposes</i>	<i>Business Inventories and Homeowners' Exemptions</i>	<i>Net Assessed Valuation</i>
Secured	\$35,975,950	\$2,638,420	\$33,337,530
Utility	4,180,170	—	4,180,170
Unsecured	7,360,230	967,690	6,392,540
Total	\$47,516,350	\$3,606,110	\$43,910,240

TABLE 8
CITY ASSESSED VALUATIONS, TAX RATES, LEVIES AND DELINQUENCIES*

<i>Fiscal Year</i>	<i>Assessed Valuation†</i>	<i>City Tax Rate‡</i>	<i>Tax Levy</i>	<i>Amount Delinquent June 30</i>	<i>Percent Delinquent June 30</i>	<i>Total Collections June 30‡</i>	<i>Percent Collected</i>
1965/66	\$30,172,410	\$.96	\$592,500	\$19,922	3.36%	\$601,191	101.5%
1966/67	32,274,150	1.92	618,929	27,108	4.38	611,017	98.7
1967/68	33,312,420	1.92	639,303	26,657	4.17	636,142	99.5
1968/69	34,696,630	1.82	628,723	13,603	2.16	638,559	101.6
1969/70	34,425,990	1.75	601,953	15,074	2.50	610,959	101.5

* Source: City Finance Officer.

†Prior to 1966/67 the city assessed its own property at a rate twice that assessed by the county. Beginning in 1966/67, the county assessed for the city and the city tax rate was increased to offset any revenue loss.

‡Includes prior years' redemptions, interest, and penalties.

TABLE 9
STATEMENT OF CITY DIRECT AND OVERLAPPING BONDED DEBT*

	<i>Percent Applicable</i>	<i>Debt Applicable April 26, 1971</i>
Merced Irrigation District	14.420%	\$ 216,586
Merced Union High School District	30.766	433,185
Merced City School District	71.350	2,083,835
McSwain Union School District	.064	122
Weaver School District	4.845	19,715
City of Merced	100.	560,000
City of Merced Redevelopment Agency	100.	375,000
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT		\$3,688,443
Less: Merced Irrigation District (100% Self-Supporting)		216,586
City of Merced Redevelopment Agency		375,000
TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT		\$3,096,857

<i>Ratio to:</i>	<i>Population</i>	<i>Assessed Valuation</i>	<i>Estimated Market Value†</i>
Direct Debt	\$ 16	1.18%	.27%
Total Gross Debt	162	7.76	1.77
Total Net Debt	136	6.52	1.49

* Based upon data prepared by California Municipal Statistics, Inc. Does not include City of Merced 1915 Act Bonds or City of Merced Revenue Bonds currently being offered for sale.

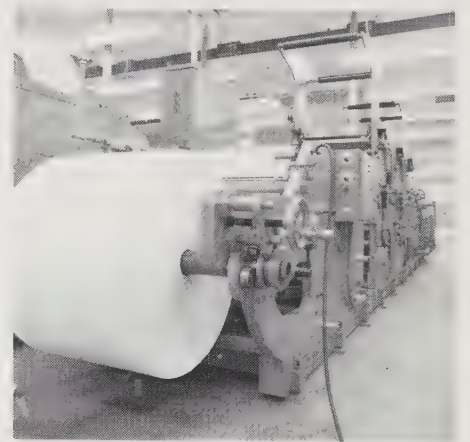
†Estimated at \$207,817,000. The State Board of Equalization reports the 1970/71 Merced County assessed valuation average 22.3 percent of full value. Public utility property is assessed at about 31 percent of market value.



Left: Merced Municipal Airport is owned and operated by the city. In addition to private and chartered service, United Air Lines provides daily scheduled air service from the Merced Municipal Airport to Los Angeles and San Francisco.

Below: Control Data Corporation employs approximately 45 persons in the City of Merced in the manufacturing of printed forms.

Bottom: A regional office of Farmers Insurance Group is located in Merced and serves over 500,000 policyholders in northern California and part of Nevada. Farmers Insurance Group employs approximately 450 persons in the Merced regional office.



THE CITY AND ITS ECONOMY

The City of Merced is located in the northern portion of the San Joaquin Valley, approximately 125 miles southeast of San Francisco and 270 miles northwest of Los Angeles. The city, with a population of 22, 686, encompasses 8.8 square miles, is the largest city in Merced County, and is the county seat.

The climate in the Merced area is ideal for an agriculturally oriented economy, with warm, dry summers and mild winters. Temperatures range from a maximum of 97.2 degrees in summer months to a minimum of 34.5 degrees in winter. The area receives approximately twelve inches of rainfall annually.

Historically, the city's economy has been primarily based on agricultural production and directly and indirectly related industries. In recent years the city has broadened its economic base by attracting many non-agriculturally oriented industries. The city is the major trading and commercial center of the county.

Population

The population of the city is extremely stable, and growth has been moderate. According to the 1970 census, population within the city limits is 22,686, and approximately 15,000 persons live in the immediate vicinity of Merced. Projections by the city's planning department anticipate a population of 45,000 within the city limits by 1980 as a result of both growth and annexation.

POPULATION STATISTICS		
Year	Merced City	Merced County
1940	10,135	46,988
1950	15,278	69,780
1960	20,068	90,446
1970	22,686	104,629

Commercial Activity

The City of Merced is the commercial and financial center for a large segment of the central valley region, and it is estimated that the city commercial areas serve a population in excess of 130,000. Several special improvement districts have been formed in accordance with the city's master plan to improve the city's commercial areas, and an active urban renewal program has rejuvenated much of the downtown area. Ample offstreet parking is provided by the city and a major street lighting program has been accomplished. Several shopping centers are available on the outskirts of the city. As a result of these facilities, sales tax revenues to the city have increased significantly, as shown in the following tabulation:

CITY OF MERCED SALES TAX REVENUES		
Fiscal Year	City Revenue	Revenue Per Capita
1965	\$497,362	\$21.67
1966	525,267	22.88
1967	527,603	22.17
1968	572,159	24.04
1969	597,177	25.09
1970	663,311	27.87

According to reports by the California State Board of Equalization, total taxable transactions in the City of Merced during 1969 totaled \$69,519,000, which represented 48.5 percent of the total volume of taxable transactions in all of Merced County.

Building and Construction

Since 1965 the dollar volume of construction in the city has averaged over \$6.2 million per year. Table 10 shows the number of building permits, the number of new dwelling units, and the valuation of construction in the city during the period 1965 through 1970.

Industry and Employment

Located in one of the nation's richest agricultural areas, industry in and around the city historically developed around food processing and related types of firms. During recent years the city and the chamber of commerce pursued an aggressive program to encourage diversified types of industry to locate in the city. As indicated in Table 11, industries situated within the city limits are extremely diversified. Adequacy of utilities and water, access to all of the state's major market areas, excellent transportation facilities, available land at suitable prices, and an adequate labor force are all major factors influencing industry to locate in the Merced area.

The city has six industrial parks with approximately 625 acres zoned for light industries and 425 acres zoned for heavy industries. Rail facilities serve five of the parks, and one park is developed around the Merced Municipal Airport. Approximately twenty percent of the industrial acreage in the city is occupied.

Castle Air Force Base is located approximately seven miles from the city and is a major factor in the city's economy. The base employs approximately 450 civilian personnel and has a military component ranging from 4,500 to 5,000. The base payroll has exceeded \$40 million annually since 1965, and military purchases in the Merced area are estimated at over \$10 million annually. Table 11 lists the major employers which are located in or adjacent to the City of Merced.

Agriculture

The San Joaquin Valley is one of the richest agricultural areas in the world, and agriculture is Merced County's principal industry. Over eighty crops are grown in commercial quantities. Major crops include deciduous fruits and nuts, grapes, cotton, alfalfa, clover, grain and vegetables. Dairying is the county's largest single source of agricultural income. The county is also noted for its turkey, poultry, and egg production. Table 12 shows the dollar volume of agricultural production in the county from 1966 through 1970.

Transportation

U.S. Highway 99, California's major North-South freeway, traverses the city. The city is also located at the junction of State Route 140, which is the major route to Yosemite National Park.

Scheduled air service is provided by United Air Lines, which has a terminal in the city's municipal airport. In addition, chartered and private air facilities are available at the airport. Rail service is provided by both the Southern Pacific and Santa Fe railroads, and overnight trucking is available to all major California cities.

Utilities

Water service to the city is provided by the Merced Water Company. The company maintains a maximum pumping capacity of 23 million gallons per day, but the average daily consumption is approximately six million gallons. Water is obtained from deep wells and the supply is virtually unlimited. Largely because of the excellent facilities of the Merced Water Company, the city has a Class 3 fire insurance rating. Irrigation water to Merced County is provided by the Merced Irrigation District which was organized in 1919. The district also provides flood control and water conservation service. The following tabulation shows the growth of water connections of the Merced Water Company since 1965:

MERCED WATER CONNECTIONS	
Year	Number of Connections
1965	7,165
1966	7,558
1967	7,650
1968	7,816
1969	7,899
1970	8,161

Electric power to the city is provided by the Pacific Gas and Electric Company from a variety of hydroelectric and steam generating plants. Natural gas is also provided by Pacific Gas and Electric Company from fields in Texas and New Mexico. Telephone service is provided by the Pacific Telephone Company.

Education

Education is provided by the Merced City School District and the Merced Union High School District. These districts operate eleven elementary schools and three high schools which serve the city and its environs. The

city also has two parochial elementary and one parochial high school. Schools are modern and well equipped. In 1966, Merced College was opened on a 110 acre campus in the northern portion of the city. The campus is designed to accommodate up to 5,000 students and its facilities will be completed in 1972. The college is a two-year college which offers an Associate of Arts degree upon completion. The following tabulation shows enrollment in the Merced City School District for 1965/66 through 1969/70:

MERCED CITY SCHOOL DISTRICT
ENROLLMENT STATISTICS

Year	Enrollment
1965/66	6,335
1966/67	6,399
1967/68	6,664
1968/69	6,656
1969/70	6,695

Other Community Facilities

Library service in the city is provided by the Merced County library system. Eighteen branches are strategically located in the county with two in the city, including the main branch. Merced County has plans for construction of a new library to be developed in the civic center complex.

Hospital service is provided by two general hospitals which have a combined bed capacity of 465. A \$2.5 million addition was recently completed to the Merced County General Hospital and medical services are modern and up-to-date. Other medical facilities include approximately fifty physicians and surgeons and twenty-five dentists.

The city is served by forty-two churches, and nearly all faiths and denominations are represented. Recreational facilities include four theatres, five parks and five playgrounds. The city is approximately eighty miles from Yosemite National Park via Highway 140, which intersects U. S. Highway 99 in the city.



TABLE 10
CITY BUILDING PERMITS AND VALUATION

<i>Calendar Year</i>	<i>Number</i>	<i>Dwelling Units</i>	<i>Valuation</i>
1965	988	169	\$ 4,256,969
1966	837	98	2,443,400
1967	1,039	144	6,787,998
1968	1,030	115	6,084,922
1969	1,244	236	10,495,802
1970	1,138	357	7,138,458

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TABLE 11
LARGEST EMPLOYERS IN MERCED AREA

<i>Name of Company</i>	<i>Type of Business</i>	<i>Number of Employees</i>
California Cannery and Growers	Process fruits and vegetables	1,200 *
Castle Air Force Base	SAC base	450
Farmers Insurance Group	Casualty insurance company	425
Merced Tomato Growers	Tomato packing plant	325 *
Air Control Products	Aluminum extrusions	250
Guerdon Industries	Mobile homes	200
General Electric Co.	Electric transformers	180
Standard Materials	Sand and gravel plant	150
Stribling Nurseries, Inc.	Nursery	135
Robertson Factories, Inc.	Drapes	130
Cleveland Portition Co.	Manufacturing packaging	50
Control Data	Manufacturing printed forms	45
J. F. Prichard and Co.	Manufacturing water cooling equipment	40
Radiator	Manufacturing radiator cores	40

*Seasonal

TABLE 12
DOLLAR VOLUME OF AGRICULTURAL PRODUCTION IN MERCED COUNTY

	1966	1967	1968	1969	1970
Field crops	\$ 42,640,800	\$ 40,200,600	\$ 40,180,200	\$ 40,862,100	\$ 45,783,000
Seed crops	2,396,300	1,201,800	892,400	756,500	469,300
Vegetable crops	19,441,700	18,118,340	23,120,700	12,228,600	16,070,000
Fruit and nut crops	20,789,540	20,033,300	25,059,840	26,098,000	29,752,000
Nursery products	2,501,000	1,794,000	1,888,000	2,170,000	2,382,000
Livestock and poultry	39,454,400	46,940,110	41,023,800	46,947,600	56,362,000
Livestock and poultry products	31,540,200	32,035,700	34,843,100	38,222,200	40,672,000
Apiary products	233,300	318,800	289,180	535,750	370,000
Total	\$158,997,240	\$160,642,650	\$167,297,220	\$172,820,750	\$191,860,300

